# INSTRUCTIONAL GUIDELINES
# FOR
# THE COMPARABLE SALES REPORT

## GENERAL REMARKS

The purpose of the Comparable Sales Report is to provide the data, analysis, studies and narrative explanations necessary to support the appraiser's reasoning and conclusions reached in each of the appraisals. The importance of the Comparable Sales Report cannot be overemphasized since it is a critical part of each appraisal. It is the foundation of any appraisal assignment, and the stability of the value conclusions built upon it depends on the care and thoroughness of the appraiser assembling it.

To assist the appraiser in preparing this report, Forms RW 20B, C, and D are furnished for compiling the data concerning each comparable sale used. All items appearing on the forms applicable to that particular sale will be completed in the space provided or upon supplemental sheets. The sales data form the nucleus of the sales report. Analysis and interpretation of this data serves as the basis for making comparison and adjustments for differences between the sales and subject parcels being appraised.

The appraiser may develop analyses in the form of paired sales, studies, graphs, charts or tables, etc. This should explain the reasoning regarding various factors of differences such as time increase, location, topography, size, contributing value, depreciation, etc. By including sufficient analysis and explanation in the Comparable Sales Report, the appraiser can eliminate repetitious explanations within each appraisal by simply referring to the Comparable Sales Report and the page number on which his documentation appears.

The initial effort in preparation of a Comparable Sales Report should consist of a detailed review of plans and cross sections, and a field inspection of the individual parcels affected. Particular attention should be given to the characteristics of the neighborhood; the type, age, trends, uses, etc., of the properties within the defined area of both project and neighborhood. At this point, the appraiser should be fully aware of the general demands of the project relative to the scope of data required and any unusual circumstances or anticipated problems. These should then be discussed with the review appraiser.

An outline of items that should be included in the Comparable Sales Report is shown on the following pages.

**Market Data Assemblage:** The appraiser begins this phase of the appraisal process by assembling all relevant data available, including sales of properties comparable to those affected by the project, current rental information, current building and site improvement costs and all other data which may influence the values of properties to be appraised.

**Comparable Sales Report:** The market data assembled is then compiled and submitted as a separate report, and incorporated by reference into each appraisal. This report shall be submitted in a protective side binder with project identification, the name of the appraiser and the date of compilation visible on the exterior of the report.

**Supplemental Reports:** In some instances, the appraiser may elect to submit a supplemental report to a comparable sales report previously prepared for another project or section in the area. This may be an option when the previous analyses remain applicable. The use of a supplemental report must have prior approval of the review appraiser.

In situations where a proposed project involves few parcels, the review appraiser may accept the sales data attached to the individual appraisal reports. The attachment must include sufficient information to provide the reader an adequate description of the area, neighborhood and project. The supplemental data must include sales map, noting project and sales location, and the appraiser's certification of comparable sales data.

1. **Letter of Transmittal** - This letter addressed to the Director of the Division of Right of Way should include the date of submission, project identification, number of appraisals in the assignment to be based on the comparable sales report, breadth of analysis, the approximate number of sales inspected and/or considered for use, and the actual number of verified comparable sales included in the report. It should also state the type of appraisal reports being submitted, i.e., self-contained, summary, or restricted.

2. **Table of Contents** - This item is self-explanatory and should include the page numbers on which various items in the sales report appear.

3. **Appraiser Certificate** - Sign and date Form RW 22.

4. **USPAP Certification** - Although the Cabinet believes that its' certifications are sufficient, in order to ensure all USPAP requirements are met, it is strongly suggested that the certification used in Standards Rule 2-3 be included as a part of the sales report.

5. **Limiting Conditions** - This shall include contingencies and limiting conditions that would apply to all sales and analysis included in the report and to all appraisals within the project. Special conditions that apply to individual parcels should be included in the appraisal of the particular parcel.

6. **Summary of Comparable Sales** - Some type of exhibit is required which summarizes the details of all comparable sales. This can be most beneficial to the appraiser in the analysis of the sales and selection of sales used in the appraisals. Items which should be included, but not limited to, are as follows: Sale number, grantor, grantee, location, sale

date, sale price, size or area, overall unit price, unit price for buildings, land and site improvements.

7. **Project Analysis** - Under this heading, the appraiser has the opportunity to describe the type of highway, access restrictions and how it will affect the properties both generally and specifically. The appraiser should describe the point of beginning, how the project traverses the neighborhood(s) and the end of the project. Station numbers may be used to pinpoint special problems. The appraiser may discuss problems that may be encountered regarding access, entrances, proximity or other items considered pertinent to the assignment.

8. **Area and Neighborhood(s) Analysis** - Under this heading, the appraiser should discuss those economic factors applicable to the project and appraisal assignment. These may be population changes or shifts, employment, agricultural production, water supplies, utilities, sanitation and waste disposal, police and fire protection, etc. It is suggested that the appraiser be concerned only with pertinent information that will add support to the opinion of value and compensation developed.

   The appraiser should discuss in sufficient detail the neighborhood(s) traversed by the project, so as to provide the reader with an understanding of the type of neighborhood as the appraiser sees it and its economic relationship to the area or county.

   The appraiser should also discuss the type of zoning in the project area and the degree of enforcement. If the zoning may have an effect on the value of parcels on the project, either before or after the acquisition, the appraiser should summarize those applicable classifications as to minimum and maximum requirements for area, setback and sideline clearances and probability of obtaining variances.

   Although a variety of published materials may be considered, it is suggested that the appraiser be concerned primarily with pertinent information that will add support to the opinions of value developed.

   In making his analysis, the appraiser must take into consideration the Uniform Relocation Assistance and Land Acquisition Policies Act of 1970, Title III, Section 301, paragraph 3, which states in part:

   > "Any decrease or increase in the fair market value of real property prior to the date of valuation caused by the public improvement for which such property is acquired or by the likelihood that the property would be acquired for such improvement, other than that due to physical deterioration within the reasonable control of the owner, will be disregarded in determining the compensation for the property."

9. **Appraisal Documentation** - In all appraisal assignments, the appraiser must support opinions and/or reasons for various adjustments made between the comparable sales used and the subject properties being appraised. The source(s) of costs upon which opinions will be based must be shown.

Occasionally, it may be necessary to support certain reasoning with adjustments peculiar to a specific parcel being appraised. Adjustments for such items as market conditions (time), location, size, and improvements and damages may be common to several appraisals. The appraiser can save time and avoid repetition by including the basis for these recurring adjustments in the narrative portion of the Comparable Sales Report. The following are items considered necessary in most appraisals.

A. **Time Adjustment (or lack of)** - Any change in economic conditions between the date of sales and the date of appraisal must be accounted for by the appraiser. A time increase factor may be developed by one or more of the following methods.

1. Back-to-Back Sales: Refer to a comparable sale(s) that has sold two or more times in the last few years and show the average increase in value on an annual/monthly basis. The appraiser must be careful to exclude from the difference any improvements made to the sale(s) between the sale(s) dates. Also, the appraiser should consider the effect any motivation of the buyers or sellers may have had upon the transactions. Further, the appraiser must be certain that a transition to a higher and better use was not the cause of increase.

   The analysis should consider the rate of increase on vacant vs. improved properties and also the relative price range of the sale(s) in its relationship to the percentages.

2. Paired Sales Analysis: Where resales of the same property are few, the appraiser may list two or more sales that are similar in characteristics, location and highest and best use at the time of sale, each selling at a different date. After adjusting for differences between the sales, a trend of increase would be indicated. The appraiser should also consider motivation and the possibility of transition for these sales, the same as set out in Item 1 above.

3. Other Data Sources: Published indices may be used to support rates of appreciation or depreciation in real estate values. Lacking any of the objective sources for change in market conditions, the appraiser may quote professionals knowledgeable in the market area (real estate agents, developers, lenders, etc.). Since personal perception is inherent in the marketplace, these subjective sources should only be used to support other documentation, or for application of nominal changes. The more sources quoted, the stronger the support.

A variety of methods can be used to document a time increase, or the lack of one. Through analysis and correlation of data, the appraiser may find that market prices

for different types of properties change at different rates. If this is the case, the appraiser should use factors that are appropriate for each specific property type. If the appraiser determines that market conditions are static and no adjustment is warranted, an explanation must be provided.

Comparable sales data over five years old is generally unacceptable. A thorough explanation must accompany the application of any older data to justify its use. It may be necessary to use older data in the appraisal of unique and special use properties when more current data is not available.

B. **Financing** - If atypical or creative financing is reflected in the sales price, the appraiser may find it necessary to develop procedures for adjusting some of the data. Terms of sale may indicate a cash equivalency adjustment is warranted if significant advantage accrues to one of the parties.

C. **Location** - In most market areas, some locations are more desirable than others, and generally, the sales occurring in each of these locations will reflect this difference if properly analyzed. Location adjustments may be supported by an analysis of land values in the various areas of the project based on bare land sales or on properly allocated land values. The sales used should be adjusted for time and other factors so that only location is considered in the net difference. Also, the appraiser should discuss highest and best use in the context of developing trends within the various sectors of the project. The appraiser may then show the reasoning for a range of adjustments for location in those areas of the project related to the comparable sales.

A chart or graph may be useful to the appraiser in analyzing this data. With a range of adjustment established, the appraiser may then refer to this analysis in the appraisal.

D. **Land Adjustment** - Since no two properties are alike, some adjustment for differences in land characteristics may be necessary. Usually, the appraiser can provide a reasonable analysis for adjusting the differences on residential lots, and commercial and industrial land. In view of this, some sort of analysis should be made by the appraiser to explain the reasoning and procedures to be used in the appraisal report.

The greatest problem concerns agricultural land because the ratio of land classes and the proportion each class has to the total area must be considered in the adjustments. In eminent domain appraisal reports, adjustment for this difference is considered a topographical adjustment. To assist the appraiser in making these adjustments, an example of a land class rating system developed for use on agricultural land is shown at the end of this Section.

E. **Improvement Adjustments** - As with land, very few properties have buildings and special land improvements alike, and adjustments need to be made for factors of difference such as area, quantity, quality, age, condition, etc.

The cost source used to classify the improvements should be discussed as to its validity in the project area and its relationship to allocation, depreciation and contributing values which will serve as a basis for adjustments in the market approach and possibly the depreciation used in the cost approaches.

Under this heading, the appraiser should discuss the method used to allocate the contributing value of buildings and special land improvements on the sales and how adjustments for differences will be made between the sales and subject properties.

E. **Curable Functional Obsolescence** - When a property suffers a functional deficiency caused by the acquisition, and that deficiency can be cured, a corresponding adjustment should be reflected in the after value. If the adjustment is cost-based, the appraiser must show the source(s) from which the costs were obtained and unit prices for each item considered in the adjustment. Generally, these are obtained from local businesses or contractors.

A compilation of these costs may be presented in the Comparable Sales Report and applied in the appraisal report as needed.

## AFTER VALUE DOCUMENTATION:

It is not the intent of these guidelines to dictate methods to be used to document the appraiser's opinion. The following discussion regarding factors to be considered in the after value is given to assist the appraiser in determining the type and extent of documentation to be included in the Comparable Sales Report.

In essence, after values must be supported in the same manner as before values. The same criteria for data selection and inclusion apply equally to both situations. For instance, if the Sales Comparison Approach is applicable, then market data of similar types of properties located in similar neighborhoods with similar characteristics and property line setbacks should be secured and analyzed the same as the data used in the before value. If the income producing characteristics of a subject property change, it is necessary to include rental data in the Comparable Sales Report which reflects the changed characteristics.

Cost data will usually not change dramatically from the before value to after value. However, vacant land sales of different sizes or shapes may be needed for comparisons to subjects with reduced size, altered shapes, etc.

If it appears that some subject properties may be damaged by the acquisitions due to cuts, fills, landlocking, proximity, etc., the adjustment for these deficiencies may be supported by paired sales analysis or indications derived from analysis of damaged sales. (SEE ALSO – DAMAGE ANALYSIS)

## USE OF COMPARABLE SALES FORMS RW 20B, C AND D

As previously stated, the comparable sales and the analyses are a critical part of each appraisal assignment and the appraiser must be thorough in securing and presenting factual data concerning each sale included in the report.

Three forms have been designed to assist the appraiser in assembling the factual data. RW 20B is for residential, commercial and industrial properties. RW 20C is for rural tracts and RW 20D is common to both the residential and rural forms.

Each form should have all lines and spaces filled in**.** Those items missing from a sale are to be marked "none" and those not applicable as "NA." Be sure to give as many pertinent details as possible on each item. Careful, descriptive words save space.

The forms are basically self-explanatory; however, the appraiser should include all details pertinent to the appraisal reports, thereby providing support for all conclusions.

When the report is opened at a comparable sale, Form RW 20D should be on the left side and RW 20B or C on the right side. This allows the reader to refer quickly between pages.

### Sales Form RW 20D

**Sketches** - The instructions given on Form RW 20D regarding sketches are self-explanatory.

Sketches of primary buildings must be made showing all measurements used to calculate the square foot area of the principal building.

**Photographs** - The purpose for including photographs is to identify the sale property by depicting the general characteristics, i.e., terrain, buildings and site improvements. Take as many photos as needed to adequately depict the property. Identification of photographs is the same as for subject properties (See also: The Appraisal Form – RW 20)

**Sales Analysis** - The sale should be identified as either typical or not typical for the neighborhood. If a transition of use is occurring, i.e., transition from SFR to business, the trend should be noted as gradual, rapid, etc.

Neighborhood price range should reflect the value of properties within the same class as the sale property, i.e., residential, commercial or industrial. "Varies" means little to anyone reading the report.

Conforming or nonconforming use, as of the date of sale, should be noted and, in nonconforming situations, indicate the type of transition. Present use is self-explanatory. If vacant, say so.

Approximate distance to public facilities should be stated, i.e., shopping, schools, city limits, CBD, community or a particular point the appraiser may consider important.

Particular attention should be given to proximity and grade as these two factors are often elements of damage addressed in the appraisal report.

**Building Components** - Each component must be identified and assigned an applicable rating as observed at time of inspection. Class of the structure must be stated as well as cost source, story height, actual and effective age and room count. Disparity between actual and effective ages may be explained under "remarks" or any blank space available on the form. Components must be adequately described to convey a precise description. Basement area must be defined as to finished and unfinished, and not included in the basic living area of the residence. The built-in garage description, if applicable, should reflect measurements and utility, i.e., one car and storage, workshop, etc. The kitchen description should reflect built-in appliances and cabinet type. Electrical description must define the number of amps, 60-100-150-200, etc. An adequacy rating, abbreviated, is preferred. Attic areas may be described as storage area or unusable. Floors may be described as carpet, carpet/tile, etc. Interior finish should reflect the type of finish, i.e., paneled, wall board/painted or papered, etc. The HVAC system should be reflected in the component description. Auxiliary or supplemental heating systems should be noted under remarks or other blank space. Bathroom description may include the number of fixtures and wainscot finish. Fireplace description should define the number and story height, i.e., single/2 story, etc. Storm windows/doors should be defined as aluminum, thermopane, etc.

## Sales Form RW 20B and C

On Form RW 20B and RW 20C, careful attention should be given to providing a specific description of location, i.e., east side of U.S. 10, 2 miles south of KY 1625.

All essential data entered upon the Comparable Sales forms must be verified to the appraiser by a reliable source. A person with firsthand knowledge should be considered the most reliable. The accuracy of the entire analysis is dependent upon the sales price and the considerations and conditions included therein.

The sales price should be confirmed by the buyer, seller, or agent participating in the transaction. These are persons with firsthand knowledge, who can tell the appraiser whether the sales price included any personalty, labor equity, or trade of property. These are also the people who can relate the terms of financing. If the buyer, seller, or agent was not contacted, an explanation must be given stating reasons why these parties were unavailable.

Deeds, neighbors, relatives, friends, MLS data and PVA's are secondary or follow-up confirmation and should be relied upon only when the primary sources are unavailable.

It is essential that financing and conditions be fully described. Mortgage amount and interest rate must be stated along with discount points paid, if applicable. Any form of creative financing should be explained in detail. (See narrative: RE **Financing**).

Highest and best use should reflect the likely and most probable use of the property on the date of sale. Zoning, present and/or pending or contingent, must be defined.

The name of the tenant, if applicable, must be listed. Terms must include time period and rental rate.

Improvement since sale date should reflect any repairs, additions, etc., beyond normal maintenance. These must not be considered when making adjustments in the Sales Comparison Approach because they are not indicative of the property on the date of sale.

General Data - Physical characteristics should be described in detail, i.e., 15 ft. blacktop street or road, 6 in. concrete curb, 3 ft. concrete walk, etc. Storm sewer may be noted by *yes* or *none*. Water supply should be defined as public, well, cistern, etc. Gas service should be acknowledged as public, propane, etc., and on-site, available or unavailable. Electrical service may be described as typical residential, commercial, three phase, etc. Sewage disposal should be specifically explained, i.e., public system, septic, etc. Drainage may be described as adequate, unrestricted, etc.

Economic Data must reflect the annual contract rent, less estimated expenses. Annual Net Income divided by sales price equals Overall Cap. Rate. Indicated Interest Rate is derived by the computation and subtraction of the recapture rate. The Gross Rent Multiplier or Gross Income Multiplier is derived by dividing the sales price by the Annual Contract Rent. Allocation of land and building rent should be supported by reasons and conclusions as interpreted from market actions. Remaining economic life, in this particular situation, should reflect the term the sale property is anticipated to sustain the current rental rate as perceived by the investor.

Other features: Special concessions, equipment and/or services influencing the transaction should be acknowledged here.

Allocation and Contributing Values: Classification of rural acreage may be derived from an aerial photograph, computations from an on-site inspection or from an agency of the Federal Land Management Offices. Erosion potential and productivity of the soil should guide the appraiser in land assigning classes. A Land Class Rating system may be employed which should, for consistency purposes, reflect the U.S. Soil Conservation Service classifications and percentages of contribution of each classification. A detailed land class rating system is presented on the following pages. Classification of excess residential-commercial-industrial property may be described by its use, i.e., support area for a homesite, buffer area, etc. Allocated values should reflect an analysis of the market as defined from studies of sales dominated by a particular classification. (See also: Soil Rating Technique)

Contribution of Site Improvements - Typically, these items are within one of two categories; essential and complimentary. The essential items, i.e., septic system, water supply, etc., may be measured in contribution relative to the cost of installation less applicable depreciation. It is an acceptable premise that site improvement depreciation is relative to the age/condition of the primary structure being served. Complimentary site improvements such as trees, shrubs, flower gardens, etc., should be allocated in relation to their contribution in the market.

**On the following pages are examples of a rural tract and a residential tract.** Note that each Form RW 20D includes sketches prepared in accordance with the instructions shown above the block. The rural tract shows the various land classes, however, the appraiser may prefer to show the different areas on a topographical map included in the addenda and refer to them at this point.

The sketch on the residential tract shows street entrances and building arrangement. This type of detail provides essential information that the reader can easily interpret.

## ADDENDA

Some appraisers consider the addenda section as a catchall and include material, or information, that has no real bearing upon the appraisal assignment. Actually, the addenda is an important part of any appraisal assignment. It is where information such as topographical sales data map(s) showing the location of every comparable sale in his report along with a delineation of the project area and its boundaries should be included.

When a project involves both rural and urban areas, the appraiser should furnish a city map showing the project area and boundaries as well as location of the comparable sales within the urban area.

A county map should be used identify areas covered by the topographical map showing its relationship to the county, neighborhood and project.

When locating sales of five acres or more on the topographical map, the appraiser should show the property line boundary of each sale. On agricultural tracts, the property can be identified more accurately thus providing a more realistic basis for topography adjustments.

A portion of a topo map is included on the following page. Note that this type of exhibit shows the road frontage of the tract, the various land classes and their relationship to the various improvements. By using the date that the topo map was prepared, the appraiser should be able to determine the buildings on the property as of that date, and upon inspecting the property, can identify those buildings constructed since then. This should help the appraiser assign depreciation and allocate contributing values even though these items are generally based on the estimated effective age of the improvements.

Background data pertinent to the appraisal assignment can also be included in the addenda. This may consist of articles relating to economic changes in the area, studies of various factors prepared by local Chambers of Commerce, university research centers or national studies involving the particular region where the project is located.

The appraiser may choose to present professional qualifications as well as charts, graphs and other descriptive data in the addenda. When an appraisal assignment is so large or complex that it may last for an extended period, new data becoming available during the course of the assignment may be presented in addendum form.

The addenda are important tools in the appraisal assignment, and exhibits should be prepared in a careful and professional manner.

**SUMMARY**

The Comparable Sales Report is a part of each appraisal. If a deficiency exists in the documentation provided in the report, the appraisals will not be adequately supported.

It is very important to develop the sales report and analysis thoroughly to provide adequate support for each appraisal. It should include sufficiently detailed explanations to convince the reader that the conclusions reached by the appraiser are both reasonable and credible.

Data derived from the area and neighborhood analyses should guide the appraiser to an understanding of the market trends from which conclusions may be reached relative to the stability and durability of current market conditions. Interpretations of data relative to time, depreciation, location and variations of damages must be based on logic and reasoning as the appraiser is always attempting to measure current value based upon historical data. Thus, definition and interpretation of market trends is one of the most important factors in the attempt to estimate fair market value.

## LAND ANALYSIS

### SOIL RATING TECHNIQUE:

Due to diversity of types of terrain in relatively short distances and due to the development of individual land tracts on a metes and bounds basis as opposed to grid pattern, considerable complexity can arise in making necessary adjustments for land size, shape, condition, fertility and topography, when adjustments are being made on a dollar per acre unit contribution basis. In making these adjustments, the appraiser must develop a systematic and accurate approach by which to measure and analyze these differences.

A soil rating technique has been developed based on similar classification system as devised by the Soil Conservation Service. The various land conditions have been broken down into seven classes, with Classes I through IV applying to land suitable for cultivation, and Classes VI through VIII applying to land not suitable for cultivation. (Class V soil is not found in Kentucky.) The following discussion gives a brief description of each class and the percent (%) rating assigned to each class.

Class I — Rating 100% — Slope 0-2% — Color Code **Green**

Very little risk of damage or limitation in respect to use. Capable of row crops every year. Generally well drained, deep fertile soil.

Class II — Rating 85% — Slope 2-6% — Color Code **Yellow**

Moderate risk of damage or limitation in use. Capable of row crops on alternate years with a close growing crop such as lespedeza in rotation. These soils require some soil management including conservation practices.

Class III — Rating 70% — Slope 6-12% — Color Code **Red**

Severe risk of damage or limitation in use. A row crop once in 3 or 4 years with at least 1 year of sod in a 3 year rotation. Such a rotation would be corn-grain meadow

Class IV — Rating 55% — Slope 12-20% — Color Code **Blue**

Very severe risk of damage or limitation in use. A row crop no more than once in 5 years with at least 3 years of meadow or pasture.

Class V — This type of soil is not found in Kentucky.

Class VI — Rating 35% — Slope 20% — Color Code **Orange**

Severe risk of damage. Limited to pasture and meadow crops. Tillage limited to pasture or meadow establishment and renovation.

Class VII Rating 20% Slope over 30% Color Code **Brown**

Extreme risk of damage. Limited to forest use. Can produce pasture, using species with very vigorous growth habits, but usually not profitable owing to difficulty of management and maintenance.

Class VIII Rating 0% Severe Slope (bluff or cliff) Color Code **Purple**

This class consists of cliff or rock ledges. Impossible to maintain, generally considered as wastelands.

To apply and utilize the soil rating technique, each comparable sale and each subject property is assigned a soil rating factor in the following manner.

Woodlands are found primarily on the steeper terrains but could occur in any type of terrain. When woodland is encountered, a class adjustment is affected to recognize the cost of clearing.

HYPOTHETICAL SALE OR SUBJECT PROPERTY

| AREA | LAND TYPE | LAND CLASS | % RATING | RATING ACCUMULATED |
|---|---|---|---|---|
| 40.0 | Tillable | II | 85% | 34.00 |
| 25.0 | Pasture | IV | 55% | 13.75 |
| 15.0 | Woodland | VII | 15% | 2.25 |
| 2.0 | Wasteland | VIII | 0% | -0- |
| 82.0 | | | | 50.00 |

Accumulated Rating

Area = Soil Rating

$\frac{50}{82}$ = .61 Soil rating for hypothetical example

In order to arrive at a % adjustment between a comparable sale and a subject property, the following example is given assuming a subject property with a soil rating of 0.65 and a comparable sale with a soil rating of 0.61. In this example, subject property is superior to comparable sale by 6.5%, (65/61 indicating 6.5%) for those conditions considered under the soil rating technique. This percentage is used to determine a dollar amount per acre for necessary unit adjustment.

In reverse ratings, sale being 65%/subject 61%, then the adjustment is a minus 6.15%, being the reciprocal.

Percentage land class ratings may also be developed for the specific project from sales being used on the project. The following is one suggested method for determining a factor for each land class. Each sale would first be adjusted for time to a common date and a unit value for each class of land allocated.

**Example**

| SALE NO. | AREA | I | II | III | IV | V | I | VII | VII |
|---|---|---|---|---|---|---|---|---|---|
| 1 | 180 | $ 600 | $ 400 | $ 250 | $ 200 | $ 120 | $ 90 | $ 60 | $ 5 |
| 2 | 165 | 280 | 325 | 190 | 175 | -0- | 75 | 40 | -0- |
| 3 | 200 | 725 | 550 | 340 | 270 | -0- | 100 | 70 | -0- |
| 4 | 225 | 500 | 400 | -0- | 250 | 150 | -0- | 50 | -0- |
| 5 | 140 | 700 | 600 | 425 | 300 | -0- | 125 | -0 | -0- |
| 6 | 135 | 550 | 375 | 300 | 225 | -0- | -0- | 60 | 5 |
| Totals | 1045 | $3555 | $2650 | $1505 | $1420 | $ 270 | $390 | $280 | $10 |
| Averages | 174 | $ 593 | $ 442 | $ 301 | $ 237 | $ 135 | $ 98 | $ 56 | $ 5 |

The following method is used to compute the ratio of the contributing value for each land class, based on the average unit value.

| Procedure | | | | Rating Factor |
|---|---|---|---|---|
| Class I is 100% land use | = | | | 1.00 |
| Class II or $442/ac / Class I or $593/ac | = | .75 | use | .75 |
| Class III or $301/ac / Class I or $593/ac | = | .50 | use | .50 |
| Class IV or $237/ac / Class I or $593/ac | = | .40 | use | .40 |

Each of the other classes would be divided by the Class I average per acre unit value to derive the rating factors. These factors would then be used on each sale and each subject to derive the composite factor which would be shown on line (12), Sheet 8/14 of Appraisal Form RW 20 as revised 1/99.

## ADJUSTMENTS: DERIVATION AND APPLICATION

This section is not intended to dictate to the appraiser how to derive or apply adjustments. It is intended to clarify and explain adjustments, which are often derived and applied in confusing and inconsistent manners. This section deals primarily with the Sales Comparison Approach, however, it may also be pertinent to parts of the Cost (depreciation adjustments) and Income (economic rent adjustments) Approaches.

The Division **prefers** that, whenever possible, adjustments be made in dollar amounts, either lump sum or unit values. There are, of course, situations when this is not practical and percentage adjustments are necessary. All adjustments should be made in the following sequence:

| | | |
|---|---|---|
| 1. | **Financing:** | This adjustment is made for atypical financing and often involves a cash equivalency. |
| 2. | **Time/Mkt. Conditions:** | Adjustment for inflationary or deflationary pressures occurring between the sale and appraisal date. |
| 3. | **Location:** | Adjustment for differences between the location of sale and subject. |
| 4. | **Physical Characteristics:** | Adjustment for physical differences between the sale and subject.<br>A. Land<br>B. Improvements or Buildings<br>C. Site Improvements |

Some of the headings and subheadings above may have several component adjustments. For instance "**Land"** may include adjustments for topography, accessibility, soil type, size, etc. Each of these component adjustments should be made and explained in the space under the market grid and then the total adjustment for that heading entered as a dollar amount in the grid.

### DERIVATION:

Percentage adjustments may be derived by one of two methods depending upon their intended application.

Assume:

Sale A: $36,000 (excellent condition)
Sale B: $28,500 (poor condition)

**METHOD I:** A divided by B - 1 = % (The difference between A and B as a percentage of B. Derived to adjust inferior sale to superior subject.)

$36,000 divided by $28,500 - 1 = 26.3%

**APPLICATION:**

Assume:

Sale C: $27,750 (poor condition)
Subject: ? ( excellent condition)
.263 + 1 x $27,750 - $27,750 = + $7,298 adjustment

**METHOD II:** A - B divided by A = % (The percentage by which A is greater than B. Derived to adjust a superior sale to inferior subject.)

$36,000 - $28,500 divided by $36,000 = 20.8%

**APPLICATION:**

Assume:

Sale D: $35,500 (excellent condition)
Subject: ? ( poor condition)
.208 x $35,500 = - $7,384 adjustment

Adjustments must be applied in the same manner in which they were derived. For instance, it is in error to assume in Method II above that 20.8% could be used to adjust a sale in poor condition to a subject in excellent condition. As: Sale $27,750 x 1.208 - $27,750 = + $5,772. The application is not consistent with its derivation.

When percentage adjustments are not derived but are applied based upon the appraiser's best judgment, it is important to establish the relationship between the sale and subject as it relates to the known value...the sale. A sale will be either superior or inferior to a subject in certain aspects. The percentage adjustment will not be a directly corresponding percentage to the value of superiority or inferiority.

For instance, assume Sale 1 is said to be 10% superior to subject and sold for $40,000.

The minus adjustment applied to the sale is 9.1%. As: $40,000 x .091 = - $3,640. The adjustment **is not** - $4,000.

Now assume that Sale 1 is said to be 10% inferior to subject and sold for $40,000. The plus adjustment applied to the sale is 11.11%. As $40,000 x .1111 = + $4,444. The adjustment **is not** + $4,000.

Adjustments Tables I and II are on pages that follow. The purpose of these tables is to furnish a quick reference to the correct percentage adjustment to be made after the relationship between a comparable sale and a subject property has been established.

The purpose of these tables is to furnish a ready reference to the correct percentage adjustment to be made after the relationship between a comparable sale and a subject property has been established.

Table I may be used when the sale is superior to the subject in a given respect.

An example:

Documentation indicates that Elm Street is a 100 percent location, and Spruce Street is an 80 percent location. Sale is on Elm Street - subject on Spruce Street. Sale is 25 percent superior to subject.

Sales was at $900 per front foot.

The correct adjustment would be minus 20 percent of $900, or $180, indicating $720 per front foot for subject.

Table II may be used when sale is inferior to subject.

An example:

Sale is on Spruce Street - subject on Elm Street. Sale is 20 percent inferior.

Sale was at $720 per front foot.

The correct adjustment would be plus 25 percent of $720, or $180, indicating $900 per front foot for subject.

| Superiority of Sale over Subject | Minus Adjustment Applied to Sale |
|---|---|
| 1. % | .99% |
| 2. % | l.96% |
| 3. % | 2.91% |
| 4. % | 3.85% |
| 5. % | 4.76% |
| 6. % | 5.66% |
| 7. % | 6.54% |
| 8. % | 7.41% |
| 9. % | 8.26% |
| 10. % | 9.10% |
| 11. % | 9.91% |
| 12. % | 10.71% |
| 13. % | 11.50% |
| 14. % | 12.28% |
| 15. % | 13.04% |
| 16. % | 13.79% |
| 17. % | 14.53% |
| 18. % | 15.25% |
| 19. % | 15.97% |
| 20. % | 16.67% |
| 21. % | 17.36% |
| 22. % | 18.03% |
| 23. % | 18.70% |
| 24. % | 19.35% |
| 25. % | 20.00% |
| 26. % | 20.63% |
| 27. % | 21.26% |
| 28. % | 21.87% |
| 29. % | 22.48% |
| 30. % | 23.08% |
| 31. % | 23.66% |
| 32. % | 24.24% |
| 33. % | 24.81% |
| 34. % | 25.37% |
| 35. % | 25.91% |
| 36. % | 26.47% |
| 37. % | 27.01% |
| 38. % | 27.54% |
| 39. % | 28.06% |
| 40. % | 28.57% |

**TABLE I**

| Superiority of Sale over Subject | Minus Adjustment Applied to Sale |
|---|---|
| 41. % | 29.08% |
| 42. % | 29.58% |
| 43. % | 30.07% |
| 44. % | 30.56% |
| 45. % | 31.04% |
| 46. % | 31.51% |
| 47. % | 31.97% |
| 48. % | 32.43% |
| 49. % | 32.89% |
| 50. % | 33.33% |

**TABLE I**

| Inferiority of Sale to Subject | Plus Adjustment Applied to Sale |
|---|---|
| 1. % | 1.01% |
| 2. % | 2.04% |
| 3. % | 3.09% |
| 4. % | 4.17% |
| 5. % | 5.26% |
| 6. % | 6.38% |
| 7. % | 7.53% |
| 8. % | 8.70% |
| 9. % | 9.89% |
| 10. % | 11.11% |
| 11. % | 12.36% |
| 12. % | 13.64% |
| 13. % | 14.94% |
| 14. % | 16.28% |
| 15. % | 17.65% |
| 16. % | 19.05% |
| 17. % | 20.48% |
| 18. % | 21.95% |
| 19. % | 23.46% |
| 20. % | 25.00% |
| 21. % | 26.58% |
| 22. % | 28.20% |
| 23. % | 29.87% |
| 24. % | 31.58% |
| 25. % | 33.33% |
| 26. % | 35.14% |
| 27. % | 36.99% |
| 28. % | 38.89% |
| 29. % | 40.85% |
| 30. % | 42.86% |
| 31. % | 44.93% |
| 32. % | 47.06% |
| 33. % | 49.25% |
| 34. % | 51.52% |
| 35. % | 53.85% |
| 36. % | 56.25% |
| 37. % | 58.73% |
| 38. % | 61.29% |
| 39. % | 63.93% |
| 40. % | 66.67% |

**TABLE II**

| Inferiority of Sale to Subject | Plus Adjustment Applied to Sale |
|---|---|
| 41. % | 69.49% |
| 42. % | 72.41% |
| 43. % | 75.44% |
| 44. % | 78.57% |
| 45. % | 81.82% |
| 46. % | 85.19% |
| 47. % | 88.68% |
| 48. % | 92.31% |
| 49. % | 96.08% |
| 50. % | 100.00% |

**TABLE II**